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Trade Bill Update

Work on HR 3, the omnibus trade bill, progressed slowly during the first two months of this year, but the last few weeks have seen a quickening of the pace. Several subconferences are working to resolve the differences between the House and Senate versions of the trade package and it appears that the Easter target for floor consideration may be viable.

One reason for the heightened activity is undoubtedly related to the outcome of Super Tuesday's presidential primaries. Richard Gephardt's poor showing has lifted some of the pressure on congressional Democrats to reinforce his tough trade message with protectionist legislation. In fact, some analysts see Mr. Gephardt's loss and the strong victory for free-trader George Bush as a

Progress by the other subconferences has been varied. Some, including the subconference dealing with small business issues, have completed their portions of the bill. Others, most notably the export control subconference, are at an impasse. One of the sticking points for this group is the question of sanctions against Toshiba Corp. and Toshiba Machine Co., Ltd. in response to the subsidiary's illegal sales of sophisticated milling machinery to the Soviet Union.

The Senate proposal includes mandatory two- to five-year sanctions against both firms. The House has suggested that no sanctions be imposed against the parent corporation and that other elements of the provision be softened. A number of senators believe that the House offer amounts to a toothless proposal. Led by Sen. Jake Garn (R, Utah), who has spearheaded the fight for sanctions against both the parent company and Toshiba Machine, the Senate conferees have announced that they are sticking to their original proposal. Similarly, the positions of the two chambers on export controls are poles apart. Although both support the relaxation of unnecessary export control procedures, the House advocates a major liberalization effort; the Senate favors a much more cautious approach.

Whether these are intermediary negotiating positions or signals of more fundamental differences is not clear. Sen. Garn and Rep. Don Bonker (D, Wash.) may meet to try to resolve some of the issues, but tempers have been running high on both sides of Capitol Hill over these questions. Mr. Bonker has expressed concern that if the export control subconference cannot craft a compromise, sanctions and export liberalization may be dropped.

All in all, it appears that the trade bill's prospects are brighter. House Ways and Means international trade subcommittee chairman Sam Gibbons (D, Fla.) remarked March 16 that the bill is "just about on track." He said that Speaker Jim Wright (D, Tex.) is pressuring the subconferences to finish the work so that the House can vote on the compromise package shortly after Easter. If present efforts to work with the administration continue, the trade bill may actually become the Trade Act of 1988.

Eileen M. Doherty

Land Prices Leveling Off

It looks like the rapid run-up in land prices in the Tokyo metropolitan area may be over. A new National Land Agency survey showed that residential land prices in Tokyo dropped 0.8 percent in the last quarter of 1987, after rising 15.5 percent between July and September. In Kanagawa prefecture prices for land rose 1.5 percent, down sharply from the previous quarter's 28.7 percent hike, and in Chiba prefecture, they climbed a slight 1.9 percent against 27.1 percent three months earlier. Because it is a new survey, comparable earlier figures are not available. However, another NLA report put the July 1986-June 1987 residential land price increase in Tokyo at an incredible 94.8 percent, on top of a 30.5 percent jump the year before.

Rising land prices and soaring equity markets have created a vicious cycle: as land prices surged, the collateral available for loans to purchase

securities increased, feeding speculative fever on the stock markets. Higher stock prices in turn provided the collateral for still more land speculation with borrowed money. Some analysts took this argument too far, arguing that a downward spiral of land and stock prices would result from the October stock market crash; instead stock prices have recovered.

Higher land and stock prices have also probably worked to buoy consumer spending, at least by the affluent whose assets increased on paper. But with new uncertainties, first about stock prices in the wake of Black Monday and now land prices, these consumers are likely to be much more cautious.

Nomura Securities Co., Ltd. makes the argument that high land prices divert consumer spending into housing expenditures, reducing funds available for everything else, including imports. Nomura believes this is a major factor behind Japan's trade surplus. Taking both factors into account, it is likely that high land prices have increased consumer spending by the well-off but reduced that of many others.

Most of the effects described are concentrated in Tokyo and a few other large cities. In the rest of the country, land prices have been much more stable. The result has been to increase the already large differential between the cost of land in these cities and the rest of Japan.

Japan's Urban Residential Land Prices

(March 1985=100)

	All Japan	Six Large Cities
September 1980	106.5	110.6
September 1981	117.6	114.8
September 1982	126.4	120.2
September 1983	131.9	124.6
September 1984	136.0	129.6
September 1985	139.2	138.1
September 1986	142.7	165.3
September 1987	156.1	216.1

Source: Japan Real Estate Research Center

The National Land Agency's figures on standard prices for commercial property in prefectural capital cities reinforce the table's data on residential areas. While commercial land prices during 1987 were up nationally 23.8 percent, they jumped in the three most expensive cities by an incredible 40.1 percent in Tokyo, 54.9 percent in Osaka and 91.1 percent in Yokohama. In the three least expensive cities they were up 6.7 percent in Tsu (capital of Mie prefecture), 10 percent in Saga and 12.1 percent in Yamaguchi.

The increase in prices of residential and business properties in Tokyo has focused new attention on that city's land-use practices. High-rise structures and small houses are sometimes almost side-by-side. In Tokyo and other

large cities almost one-sixth of the land is designated as agricultural. Low property taxes and high taxes on profitable sales discourage land sales, making the adjustment to changing demands more difficult.

In an effort to control the land-price spiral, Tokyo has instigated new reporting requirements for real estate transactions, has attempted to control bank lending for speculative purposes and has postponed the sale of public land, among other actions (see JEI Report No. 40B, August 7, 1987, and No. 41B, October 30, 1987). Taxes on land sold within two years of purchase have been increased substantially. Officials attribute the slowdown in price increases to these measures, but their overall impact is unclear. Postponing the sale of public land, for example, could lead to higher prices if it prevents some available property from being converted to new uses.

Douglas Ostrom

EC Tightens Up On "Screwdriver" Plants

The European Community has expressed its displeasure with the quality of Japanese direct investment in continental manufacturing facilities by carrying through on a threat to penalize operations that only assemble imported parts. Such "screwdriver" plants circumvent antidumping controls on particularly sensitive products, the community argued when it adopted legislation last June requiring 60 percent domestic content in all products manufactured by foreign transplants. Japanese businessmen and government officials criticized the decision as potentially harmful to the flow of direct investment in Europe.

According to the EC investigation completed March 8, from 75 to 96 percent of the parts of electronic typewriters assembled by the European subsidiaries of Matsushita Electric Industrial Co., Ltd. (Kyushu Matsushita (UK) Ltd.), Sharp Corp. (Sharp Manufacturing Co.), Canon Inc. (Cannon Bretagne SA) and Silver Seiko Ltd. (Silver Reed International (Europe) Ltd.) are imported. A Japanese electronic scale maker, Tokyo Electric Co., Ltd., has also been charged with exceeding the imported parts ceiling. Two other Japanese electronic typewriter producers, one electronic scale maker and one construction machinery manufacturer were found in compliance with the law. The EC Commission recommended imposing duties ranging from $27 to $80 on each of the companies' products, a step that must be approved by a majority of EC members.

The commission took pains to point out that its actions were directed at dumping and not investment. Japanese businessmen were unimpressed, however, commenting that the decision was "regrettable" and "deplorable." The reason so many parts are imported, manufacturers claim, is because local sources for many key parts are not available. This is precisely the point, in the commission's opinion. The EC wishes to attract the high value-added manufacturing that supports assembly operations. With Japan's share of the continental markets for electronic typewriters (approximately 40 percent) and electronic scales (about 25 percent) at stake, Tokyo is investigating whether the EC regulations comply with the rules of the General Agreement on Tariffs and Trade. The community is pushing ahead, however, and has already launched an investigation of Japanese photocopier production under the anti-screwdriver regulations.

On a related matter, Tokyo's 1987 appeal to the European Court in Luxembourg challenging the legality of the anti-screwdriver regulations with regard to electronic typewriters should be decided in the near future. In the meantime, Japanese manufacturers are trying to develop an interim solution, since it would take time to develop local parts production capacity. While the regulations may have the desired short-term effect, they could prove detrimental in the long run.

In other areas, too, Japan's relations with the EC are uncomfortable. Bilateral trade remains the central irritant, and the EC Council is expected to adopt another resolution calling on Japan to liberalize its markets March 22. The Europeans are gratified that Japanese imports from the community rose faster than exports to it in 1987, but they lament the fact that the imbalance is still widening. Continuing the strategy of targeting particular goods, the community will focus on pharmaceuticals, dairy products and intellectual property rights at next summer's bilateral talks.

One theme that the Europeans are sounding will impact on the United States. The EC has long felt slighted by Japanese trade concessions to this country and has recently taken to heavily criticizing U.S.-Japan agreements, most importantly the 1986 bilateral semiconductor agreement (see article in this issue). The Europeans also argue that Japan and the United States give each other special consideration in the areas of telecommunications equipment and financial services. If the EC successfully concludes its case against the semiconductor accord, similar actions in other areas could follow. Although Prime Minister Noboru Takeshita and Foreign Minister Sosuke Uno have pledged to pay more attention to European concerns, it will take some time to do so.

Jon Choy

Japan-EC Trade, 1984-87

(in millions and percentage change)

	Exports				Imports			
	Yen		Dollars		Yen		Dollars	
1984	Y4,597,615	4.5%	$19,405	4.8%	Y2,210,591	14.6%	$9,334	14.9%
1985	4,768,004	3.7	20,016	3.1	2,126,894	-3.8	8,893	-4.7
1986	5,173,677	8.5	30,675	53.3	2,348,282	10.4	13,989	57.3
1987	5,490,045	6.1	37,708	12.1	2,552,171	8.7	17,583	25.7

Source: Ministry of Finance

Bilateral Science And Technology Talks Continue: Outlook Unclear

Bilateral negotiations on an agreement governing science and technology cooperation ended March 8 in Tokyo on an inconclusive note. These talks follow up on a January meeting in Washington extending the agreement until the end of March rather than allowing it to expire January 31. Although neither side will elaborate on the sticking points, there are reports that the talks broke down over U.S. demands for tighter controls on technologies with potential military applications and guarantees of intellectual property protection.

increase in total spending compared with the initial FY 1987 plan; a 1.6 percent jump in debt service costs; and a 1.2 percent increase in discretionary spending (see JEI Report No. 1B, January 8, 1988). On the revenue side, tax and stamp revenues are projected to rise 9.5 percent, while non-tax revenues and new borrowing will be down significantly, 39 percent and 15.8 percent, respectively. The debt reliance ratio will fall to just 15.6 percent, thanks to expected revenues of Y1.3 trillion ($10.4 billion) from the sale of another block of Nippon Telegraph and Telephone Corp. stock.

The upper house is now considering the measure and should vote April 5 to immediately implement the plan. Even if the uppper house vote is stymied by continued disagreement between the opposition parties and the Liberal Democratic Party over taxes, the budget will go into effect 30 days after the lower house vote, or April 10.

Car Export Quota - Having made the difficult decision to extend the restraints on Japan's U.S.-bound car shipments for another year (see JEI Report No. 6B, February 12, 1988), the Ministry of International Trade and Industry has decided to leave well enough alone on the allocation of the 2.3 million unit quota among Japan's nine exporters.

Unofficial Quota Allocations, FY 1981-FY 1988

(in units)

Exporter	FY 1981-FY 1983 Quota	FY 1984 Quota	FY 1985-FY 1986 Quota	FY 1987-FY 1988 Quota
Toyota Motor Corp.	516,659	551,792	616,900	613,816
Nissan Motor Co., Ltd.	456,030	487,040	544,500	541,778
Honda Motor Co., Ltd.	348,631	372,338	427,000	424,865
Mazda Motor Corp.	159,282	173,468	227,800	226,661
Mitsubishi Motors Corp. (including sales to Chrysler Corp.)	112,584	122,612	195,100	194,125
Isuzu Motors, Ltd. (including sales to General Motors Corp.)	16,800	49,500	120,400	119,798
Fuji Heavy Industries, Ltd.	70,014	76,250	107,600	107,062
Suzuki Motor Co., Ltd. (for sale to General Motors Corp.)	0	17,000	60,700	60,397
Daihatsu Motor Co., Ltd.	0	0	0	11,498
Total*	1,680,000	1,850,000	2,300,000	2,300,000

*Not included in these figures are the separate quotas on exports of four-wheel-drive vehicles, station wagons and mini vans and on shipments to Puerto Rico. These quotas are estimated at 112,900 units and 95,700 units, respectively, for the FY 1985-FY 1988 period.

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.